

Medicare Drug Bill Leads States Out of DSH Valley

December 8, 2003

Executive Summary

States lost more than \$1 billion in 2003 Medicaid grants as temporary increases in fiscal year (FY) 2001 and FY 2002 disproportionate share hospital (DSH) payments expired (see *Issue Brief 03-11* for a definition and history of DSH). However, Title X of the new Medicare prescription drug bill (H.R. 1) substantially increases those ceilings for FY 2004 and beyond.

New Provisions

Title X of the new Medicare drug bill reverses the decline in Medicaid DSH ceilings. FY 2004 ceilings for high-DSH states are 16% higher than their FY 2003 ceiling. The ceiling each year thereafter is the FY 2004 DSH ceiling. However, a calculation is performed annually to determine an alternative ceiling using the FY 2003 base adjusted for the consumer price index for all urban consumers (CPI-U), and states receive the higher of the two.

All states with DSH ceilings under 3% as of August 31, 2003, are now considered to be low-DSH states. These states will receive 16% increases in their ceilings each year during FYs 2004-2009, and a CPI-U adjustment thereafter. DSH-adjustments for Hawaii and Tennessee are incorporated into their Section 1115 waiver agreements. The new legislation protects these states if their statewide waivers are revoked.

Table 1 provides informal Department of Health and Human Services (HHS) calculations as of November 2003 of the state-by-state impact of the new provisions for FYs 2004-2013. Overall, DSH ceilings are estimated to increase approximately to the overall level of FY 1998, though the state-by-state distribution differs substantially.

The new legislation also increases state reporting requirements. Starting in FY 2004, states will be required to file an annual report identifying each hospital that received a DSH adjustment for the preceding year and how much it received. The secretary of HHS is further authorized to require additional reporting. Finally, an independent certified audit must be submitted annually that verifies:

- the extent to which hospitals have reduced their uncompensated care costs to reflect payment adjustments
- the amount of payments to hospitals to comply with Section 1923(g) of the Social Security Act limiting payments to the amount of uncompensated costs, and that only the uncompensated care costs of providing inpatient hospital and outpatient hospital services to indigents described in that subsection are included in the calculation

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- the state included all payments, including supplemental payments, in the calculation of hospital-specific limits
 - the state has separately documented and retained a record of all of its DSH-related costs, claimed expenditures, uninsured costs in determining payment adjustments and any payments made on behalf of uninsured persons from payment adjustments
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Impact of the Ceilings

Federal officials have tended to regard increases in DSH ceilings as savings for state budgets. This does not take into account three facts:

- a relatively large share of DSH payments actually benefit hospitals that serve a disproportionate share of Medicaid and other poor citizens
 - a number of states were not using their full DSH ceilings prior to the increase, and may well not increase their participation
 - participating in DSH requires a source of state revenue, such as a provider tax, something states may not be prepared to implement in the short term
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Table 1

Possible DSH Ceilings Under New Medicare Drug Law

(federal fiscal years; dollars in millions)

States	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Alabama	\$250	\$290	\$290	\$290	\$290	\$290	\$290	\$290	\$296	\$303	\$310
Alaska*	9	11	12	14	17	19	20	20	21	21	21
Arizona	82	95	95	95	95	95	95	95	98	100	102
Arkansas*	19	22	26	30	35	41	42	43	44	45	46
California	890	1,033	1,033	1,033	1,033	1,033	1,033	1,033	1,056	1,081	1,105
Colorado	75	87	87	87	87	87	87	87	89	91	93
Connecticut	162	188	188	188	188	188	188	188	193	197	202
Delaware*	4	5	5	6	7	9	9	9	9	9	10
Dist. of Col.	32	38	38	38	38	38	38	38	39	39	40
Florida	162	188	188	188	188	188	188	188	193	197	202
Georgia	218	253	253	253	253	253	253	253	259	265	271
Hawaii	0	0	0	0	0	0	0	0	0	0	0
Idaho*	7	9	10	12	13	15	16	16	17	17	17
Illinois	175	203	203	203	203	203	203	203	207	212	217
Indiana	174	201	201	201	201	201	201	201	206	211	216
Iowa*	18	20	24	28	32	37	38	39	40	41	42
Kansas	33	39	39	39	39	39	39	39	40	41	42
Kentucky	118	137	137	137	137	137	137	137	140	143	146
Louisiana	631	732	732	732	732	732	732	732	749	766	784
Maine	85	99	99	99	99	99	99	99	101	104	106
Maryland	62	72	72	72	72	72	72	72	73	75	77
Massachusetts	248	287	287	287	287	287	287	287	294	301	308
Michigan	215	250	250	250	250	250	250	250	255	261	267
Minnesota*	33	39	45	52	61	70	72	74	75	77	79
Mississippi	124	144	144	144	144	144	144	144	147	150	154
Missouri	385	446	446	446	446	446	446	446	456	467	478
Montana*	5	6	7	8	9	11	11	11	11	12	12
Nebraska*	13	15	17	20	23	27	27	28	29	29	30
Nevada	38	44	44	44	44	44	44	44	45	46	47
New Hampshire	132	153	153	153	153	153	153	153	157	160	164
New Jersey	523	606	606	606	606	606	606	606	620	635	649
New Mexico*	9	11	12	14	17	19	20	20	21	21	21
New York	1,304	1,513	1,513	1,513	1,513	1,513	1,513	1,513	1,548	1,583	1,620
North Carolina	240	278	278	278	278	278	278	278	284	291	297
North Dakota*	4	5	6	7	8	9	9	9	10	10	10
Ohio	330	383	383	383	383	383	383	383	391	400	410
Oklahoma*	16	19	22	25	29	34	35	36	37	37	38
Oregon*	20	24	27	32	37	43	44	45	46	47	48
Pennsylvania	456	529	529	529	529	529	529	529	541	553	566
Rhode Island	53	61	61	61	61	61	61	61	63	64	66
South Carolina	266	308	308	308	308	308	308	308	316	323	330
South Dakota*	5	6	7	8	9	10	11	11	11	11	12
Tennessee	0	0	0	0	0	0	0	0	0	0	0
Texas	776	901	901	901	901	901	901	901	921	943	964
Utah*	9	10	12	14	16	18	19	19	20	20	21
Vermont	18	21	21	21	21	21	21	21	22	22	23
Virginia*	71	83	83	83	83	83	83	83	84	86	88
Washington	150	174	174	174	174	174	174	174	178	182	187
West Virginia	55	64	64	64	64	64	64	64	65	67	68
Wisconsin*	42	49	57	66	77	89	91	93	95	98	100
Wyoming*	0	0	0	0	0	0	0	0	0	0	0
Total	\$8,748	\$10,148	\$10,187	\$10,234	\$10,288	\$10,350	\$10,360	\$10,371	\$10,609	\$10,853	\$11,103

* Identified as Very-Low DSH or Low DSH state under previous law.

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